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# Disclosure supplement and illustrative financial statements for real estate ventures : a financial reporting practice aid, November 1989 edition

American Institute of Certified Public Accountants. Technical Information Division

Moshe S. Levitin

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# **Disclosure Supplement and Illustrative Financial Statements for Real Estate Ventures**

## **A FINANCIAL REPORTING PRACTICE AID**

*To be used in conjunction with Disclosure Checklists  
and Illustrative Financial Statements for Corporations*

Edited by:

**Moshe S. Levitin, CPA**  
Technical Manager  
Technical Information Division

*The Disclosure Supplement and Illustrative Financial Statements for Real Estate Ventures have not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants, or the Financial Accounting Standards Board and have no official or authoritative status.*

**AICPA**

American Institute of Certified Public Accountants



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DISCLOSURE SUPPLEMENT AND ILLUSTRATIVE  
FINANCIAL STATEMENTS FOR REAL ESTATE VENTURES

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The checklist and illustrative financial statements included in this booklet have been developed as a nonauthoritative technical practice aid. Readers should be aware of the following:

- o The checklist and illustrative financial statements are to be used in conjunction with the "Disclosure Checklists and Illustrative Financial Statements for Corporations," and have been updated to include relevant FASB Statements, Accounting Principles Board Opinions and AICPA Statements of Position. In addition, suggested guidance has been provided from various accounting textbooks where no specific authoritative literature exists. The checklist and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. To determine the applicability of a pronouncement, its effective date should be considered.
- o The checklist and illustrative financial statements are a "tool" and in no way represent official positions or pronouncements of the AICPA.
- o The checklist and illustrative financial statements should be used by or under the supervision of persons having adequate technical training and proficiency in the application of generally accepted accounting principles and generally accepted auditing standards.
- o The checklist and illustrative financial statements do not represent minimum requirements and do not purport to be all-inclusive. The referenced standards should be reviewed if clarification is desired as to whether the disclosures indicated are required or suggested and to what extent each disclosure is relevant to the statements.

Users of this checklist and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline (see back cover).

John Graves  
Director  
Technical Services

## N O T I C E

This checklist is updated through FASB Statement No. 102. At the time of this checklist's publication, the FASB was in the final stages of issuing a Statement on Financial Accounting Standards that would require all entities to disclose information about (1) financial instruments with off-balance-sheet risk and (2) financial instruments with concentrations of credit risk. Those disclosures would be required for financial statements issued for fiscal years ending after June 15, 1990, and will be reflected in Section 7200 of the AICPA Financial Statement Preparation Manual that will be mailed to subscribers before June 1990.

DISCLOSURE SUPPLEMENT AND ILLUSTRATIVE  
FINANCIAL STATEMENTS FOR REAL ESTATE VENTURES

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## INTRODUCTION

Real Estate joint ventures are entities organized to accomplish a business purpose for the benefit of the members of the group. They are formed in a variety of legal ways. There are corporate joint ventures, partnerships (general or limited) and undivided interests.

Real Estate joint ventures ordinarily are formed to accomplish various activities such as the sale of homes and homesites, to complete development of commercial or residential real estate, or to operate and maintain those facilities.

An AICPA Issues Paper (Issues Paper), "Joint Venture Accounting," dated July 17, 1979, describes certain characteristics common to joint ventures: The entities are "(1) owned, operated, and jointly controlled by a small group as a separate and specific business project; (2) operated for the mutual benefit of the ownership group; (3) frequently organized to share risks and rewards in developing a new market, product, or technology by pooling resources and facilities; (4) operated under arrangements by which each venturer may participate in overall management regardless of the percentage of ownership; (5) usually of limited duration; (6) usually operated as an extension of the business or investment of one or more of the venturers; and (7) owned by a small number of venturers." In addition to real estate activities, joint ventures are used to explore for oil and gas, and construct and operate manufacturing facilities.

### Accounting Literature

The accounting literature has given little attention to the accounting by a joint venture. Most literature in this area deals with the accounting by the investor for an investment in a joint venture. For example, the Issues Paper and its addendum issued on October 8, 1979, the AICPA Statement of Position 78-9, "Accounting for Investments in Real Estate Ventures," APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock", and FASB Statement No. 14, "Financial Reporting for Segments of a Business Enterprise," all deal primarily with the accounting and disclosure by an investor in a joint venture or investee.

### Current Developments

The FASB has on its agenda a project that will consider, among other things, the accounting for a reporting entity's investment in other entities that do not qualify for consolidation, (e.g., accounting for investments in joint venture entities) and a reconsideration of APB Opinion No. 18. In the initial stages of the project, the Board has focused on the application of the equity method to investments in two types of joint ventures: (a) investments in jointly controlled entities and (b) participations in joint operations, commonly referred to as undivided interests in ventures. The Board has tentatively agreed that in participations in undivided

interests in ventures, each joint venturer should account for its own assets, liabilities, revenues, and expenses. That also appears to be characteristic of present practice.

### Financial Statements

The financial statements accompanying the disclosure checklist illustrate how a joint venture entity would report its financial condition, results of operations, and cash flows.

Please note that the equity section of those joint venture financial statements presents separately the ownership interest of each venturer based on his equity interest in the joint venture. If the joint venture is a corporation, the equity section would show the equity interest of each corporation. If the joint venture is a partnership, the equity section would be entitled "Partner's Capital," and would list the equity interest of each partner.



Disclosure Supplement for  
Real Estate Ventures

This checklist has been developed as a nonauthoritative practice aid, and is to be used in conjunction with the "Disclosure Checklists for Corporations." Accordingly, the notice on page 3 is incorporated herein by reference.

Explanation of references:

ARB = Accounting Research Bulletin  
APB = Accounting Principles Board Opinion  
SFAS = Statement of Financial Accounting Standards  
(AC) = Reference to section number in  
          FASB Accounting Standards Current Text  
SOP = AICPA Statement of Position  
AT = Suggested guidance from various accounting textbooks

Checklist Questionnaire

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Financial Statements and Notes Checklist for  
Real Estate Ventures

Note: This checklist is to be used in conjunction with section 8400 of the "Disclosure Checklist for Corporations."

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
General			
A. Disclosure of Accounting Policies			
1. Has treatment of the following items been considered for disclosure:			
- preacquisition costs	___	___	___
- interest, property taxes and insurance	___	___	___
- indirect property costs	___	___	___
- amenities	___	___	___
- incidental operations	___	___	___
[SFAS 67 pars. 4-10 (AC Re2.104-.110); AT]			
2. Has the method of allocating capitalized costs to components of real estate projects been considered for disclosure?	___	___	___
[SFAS 67 par. 11 (AC Re2.111); AT]			
3. Disclosure of method of revenue recognition			
a) If more than one method is used, is a description of the circumstances under which each method is used provided?	___	___	___

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b) If the percentage-of-completion method is used for condominium projects or time-sharing interests, have the minimum requirements for units sold and project costs incurred before profit is recognized been considered for disclosure?	_____	_____	_____
[APB 22 par. 12 (AC A10.105); SFAS 66 par. 37 (AC Rel.137); AT]			
4. Is the method of reporting investments in joint ventures disclosed?	_____	_____	_____
[SOP 78-9 par. 12; APB 18 par. 20 (AC I82.110); APB 22 par. 12 (AC A10.105)]			
5. Has the nature of significant differences between tax expense attributable to continuing operations and the amount of income tax expense resulting from applying the domestic federal statutory rates to pretax income from continuing operations been disclosed?	_____	_____	_____
[SFAS 96 par. 28 (AC I25.127)]			
6. Is the consolidation policy disclosed?	_____	_____	_____
[ARB 51 par. 5 (AC C51.108); APB 22 pars. 12-13 (AC A10.105-.106)]			
<b>B. Accounting Changes</b>			
1. Are significant revisions in estimates of the percentage-of-completion disclosed if the effects are material?	_____	_____	_____
[APB 20 par. 33 (AC A06.132)]			
2. If a retail land sale that has been accounted for by the installment method subsequently qualifies and is accounted for by the percentage-of-completion method has the effect been accounted for as a change in accounting estimate and the effect on income before extraordinary items, net income and related per share amounts of the current period disclosed?	_____	_____	_____
[APB 20 par. 33 (AC A06.132); SFAS 66 par. 49 (AC Rel.149)]			

- |  | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|--|------------|-----------|------------|
| 3. If a sale, other than a retail land sale, which is accounted for using the installment or cost recovery methods subsequently qualifies and is changed to the full accrual method, is this change disclosed? | _____      | _____     | _____      |

[APB 22 par. 12 (AC A10.105) SFAS 66 par. 61 and 64 (AC Rel.159 and .162)]

#### C. Contingencies and Commitments

1. Have the following disclosures regarding improvements for retail land sales operations been made:

a) Estimated total costs and estimated dates of expenditures for improvements for major areas from which sales are being made over each of the five years following the date of the financial statements?

\_\_\_\_\_

b) Recorded obligations for improvements?

\_\_\_\_\_

[SFAS 66 par. 50 (AC Rel.150)]

2. Are other significant commitments disclosed such as commitments to purchase or construct real estate or provide financing to affiliates?

\_\_\_\_\_

[SFAS 5 pars. 18-19 (AC C59.120)]

#### D. Segment Reporting

(Note . Segment reporting is not required for nonpublic enterprises.

[SFAS 21 par. 15 (AC S20.101)]

- . See SFAS 24 par. 5 (AC S20.109-.110) for other circumstances where this section may not be applicable)

1. Have the following disclosures been presented for each of an enterprise's reportable segments and in the aggregate for the remainder of the enterprise's industry segments not deemed reportable segments:

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a) Sales to unaffiliated customers and sales or transfers to other industry segments of the enterprise?	_____	_____	_____
. The basis of accounting for intersegment sales or transfers?	_____	_____	_____
. If the basis of accounting for intersegment sales or transfers is changed, disclosure of the change and its effect on the reportable segments' operating profit or loss in the period of change?	_____	_____	_____
b) Operating profit or loss?	_____	_____	_____
. An explanation of the nature and amount of any unusual or infrequently occurring items reported in its income statement that have been added or deducted in computing the operating profit or loss of a reportable segment?	_____	_____	_____
. If the methods used to allocate operating expenses among industry segments in computing operating profit or loss are changed, the nature of the change and its effect on the reportable segments' operating profit or loss in the period of change?	_____	_____	_____
. If an enterprise chooses to disclose some other measure of profitability for some or all of its segments in addition to operating profit or loss, the nature and amount of each category of revenue or expense that was added or deducted and the methods of allocation?	_____	_____	_____
. If the methods used above are changed, the nature and effect of the change in the period of change?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c) The aggregate carrying amount of identifiable assets?	_____	_____	_____
d) The aggregate amount of depreciation, depletion and amortization expense?	_____	_____	_____
e) Capital expenditures?	_____	_____	_____
f) The enterprise's equity in the net income from and investment in the net assets of unconsolidated subsidiaries and other equity method investees whose operations are vertically integrated with the operation of that segment? The geographic areas in which those vertically integrated equity method investees operate?	_____	_____	_____
g) The effect on operating profit of a change in an accounting principle in the period in which the change is made?	_____	_____	_____
[SFAS 14 pars. 22-27 (AC S20.128-.133)]			
2. Have the following disclosures been presented for an enterprise's foreign operations and for its domestic operations as appropriate, if applicable?			
a) Revenue with sales to unaffiliated customers and sales or transfers between geographic areas shown separately?	_____	_____	_____
. The basis of accounting for intra-enterprise sales or transfers?	_____	_____	_____
. If the basis of accounting for intraenterprise sales or transfers is changed, the nature of the change and its effect in the period of change?	_____	_____	_____
b) Operating profit or loss or net income or some other measure of profitability between operating profit or loss and net income?	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c) Identifiable assets?	_____	_____	_____
[SFAS 14 par. 35 (AC S20.141)]			
3. If the amount of export sales from an enterprise's home country to unaffiliated customers in foreign countries is 10 percent or more of total revenue from sales to unaffiliated customers as reported in the enterprise's consolidated income statement, is that amount separately reported, in the aggregate and by such geographic areas as are considered appropriate in the circumstances?	_____	_____	_____
[SFAS 14 par. 36 (AC S20.142)]			
4. Have the geographic areas into which an enterprise's foreign operations been disaggregated identified?	_____	_____	_____
[SFAS 14 par. 37 (AC S20.143)]			
5. Has the information about revenue, profitability and identifiable assets required to be presented for foreign operations been reconciled to related amounts in the financial statements of the enterprise as a whole?	_____	_____	_____
[SFAS 14 par. 38 (AC S20.144)]			
6. If 10 percent or more of the revenue of an enterprise is derived from sales to any single customer, has that fact and the amount of revenue from each such customer been disclosed?	_____	_____	_____
[SFAS 30 par. 6 (AC S20.145)]			

E. Other Matters

1. If the installment method of profit recognition is used, have the following items been disclosed?
  - a) The sales value, unrecognized gross profit and total cost of the sale in the income statement or related footnotes for the period including the date of sale?

\_\_\_\_\_

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b) The revenue and cost of sales presented as separate items in the income statement or related footnotes when profit is recognized as earned?	_____	_____	_____
[SFAS 66 par. 59 (AC Rel.157)]			
2. If the cost recovery method of profit recognition is used, have the following items been disclosed?	_____	_____	_____
a) The sales value, unrecognized gross profit and total cost of the sale in the income statement for the period including the date of sale?	_____	_____	_____
b) Has the unrecognized gross profit been offset against the related receivable on the balance sheet?	_____	_____	_____
c) Has the gross profit been presented as a separate item of revenue on the income statement when it is recognized as earned?	_____	_____	_____
[SFAS 66 par. 63 (AC Rel.161)]			
3. If the deposit method of profit recognition is used, is disclosure made that the property and related existing debt are subject to a sale contract?	_____	_____	_____
[SFAS 66 par. 65 (AC Rel.163)]			
Balance Sheet			
A. General			
1. Has an unclassified balance sheet been considered where it is not possible to clearly define the operating cycle and classification of current assets and liabilities on the basis of the one-year rule in ARB 43, chapter 3A, paragraph 5.	_____	_____	_____
[AT-Not required.]			

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Are real estate assets grouped in a manner that discloses the company's operations? The following are examples of classifications to consider:			
. Unimproved land	_____	_____	_____
. Land under development	_____	_____	_____
. Residential lots	_____	_____	_____
. Condominiums	_____	_____	_____
. Single-family dwellings	_____	_____	_____
. Rental properties	_____	_____	_____
. Commercial and industrial properties	_____	_____	_____

[AT-Not required.]

#### B. Receivables

Are the following disclosures regarding accounts receivable of enterprises with retail land sales operations disclosed?

a. Maturities of accounts receivable for each of the five years following the date of the financial statements?	_____	_____	_____
b. Delinquent accounts receivable and the method(s) for determining delinquency?	_____	_____	_____
c. The weighted average and range of stated interest rates of receivables?	_____	_____	_____

[SFAS 66 par. 50 (AC Rel.150)]

#### C. Investments

1. For investments in real estate ventures accounted for under the equity method, are the following items disclosed?	_____	_____	_____
a) The name of each joint venture and percentage of ownership?	_____	_____	_____
b) The accounting policies of the investor with respect to investments in joint ventures?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c) The difference, if any, between the amount at which an investment is carried and the amount of underlying equity in the investee's net assets and the accounting treatment of the difference?	_____	_____	_____
d) For those investments in common stock for which a quoted market price is available, the aggregate value of each identified investment based on the quoted market price? (This is not required for investments in common stock of subsidiaries.)	_____	_____	_____
e) If investments in unconsolidated subsidiaries are, in the aggregate, material in relation to financial position or results of operations, summarized information as to assets, liabilities, and results of operations for such subsidiaries, (in the notes or in separate statements) either individually or in groups, as appropriate?	_____	_____	_____
f) If investments in joint ventures are in the aggregate, material in relation to the financial position or results of operations, summarized information as to assets, liabilities and results of operations of the investees, (in the notes or in separate statements) either individually or in groups, as appropriate?	_____	_____	_____
g) Material effects of possible conversions, exercises, and other contingent issuances of an investee on the investor's share of reported earnings or loss if conversion of outstanding convertible securities, exercise of outstanding options and warrants, and other contingent issuances of an investee may have a significant effect on an investor's share of reported earnings?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
h) The names of any significant investments in which the investor holds less than 20 percent of the voting stock and the investment is accounted for on the equity method together with reasons why the equity method is considered appropriate?	_____	_____	_____
[APB 18 par. 20 (AC I82.110)]			
2. Are the following items relating to investments in real estate ventures accounted for under the cost method disclosed?	_____	_____	_____
a) The accounting policies of the investor with respect to investments in joint ventures?	_____	_____	_____
[APB 18 par. 20 (AC I82.110)]			
b) The amount of dividends or distributions received in the current period?	_____	_____	_____
[AT-Not required.]			
c) The names of any significant investments in which the investor holds 20 percent or more of the voting stock and the investment is not accounted for on the equity method, together with reasons why the equity method is not considered appropriate?	_____	_____	_____
[APB 18 par. 20 (AC I82.110)]			
3. Are the following items relating to investments in real estate ventures accounted for under the proportionate consolidation method disclosed?			
a) The accounting policies of the investor with respect to investment in joint ventures?	_____	_____	_____
[APB 18 par. 20 (AC I82.110)]			



Yes      No      N/A

- b) If investments in joint ventures are, in the aggregate, material in relation to the financial position or results of operations of the investor, summarized information as to assets, liabilities and results of operations of the investees, (in the notes or in separate statements) either individually or in groups, as appropriate?

\_\_\_\_\_

[AT-Not required.]

#### D. Properties

1. Is the amount by which the carrying amount of a real estate project, or part thereof, held for sale or development and sale exceeds net realizable value disclosed?

\_\_\_\_\_

[SFAS 67 par. 24 (AC Re2.124)]

2. Has the method of determining net realizable value been considered for disclosure?

\_\_\_\_\_

[AT-Not required.]

#### Income Statement

##### A. General

Have revenue and cost of operations been classified by principal type of activity? The following are examples of classifications to consider:

- . Unimproved land
- . Land under development
- . Residential lots
- . Condominiums
- . Single-family dwellings
- . Rental properties
- . Commercial and industrial properties

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

[AT-Not required.]

# **Illustrative Financial Statements**

## **Real Estate Joint Ventures**

## **Illustrative Independent Auditor's Report**

We have audited the accompanying balance sheets of Real Estate Joint Venture Company as of December 31, 19X1 and 19X0, and the related statements of income and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Real Estate Joint Venture Company as at December 31, 19X1 and 19X0, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

*[Signature]*

*[February 15, 19X2]*

# Real Estate Joint Venture Company

## Illustrative Balance Sheet

December 31, 19X0 and 19X1

Assets	December 31, 19X1	December 31, 19X0
Cash and cash equivalents	\$ XX	\$ XX
Accounts receivable	XX	XX
Land held for development and sale	XX	XX
Supplies	XX	XX
Fixed assets, at cost	\$ XX	\$ XX
Less: accumulated depreciation	<u>(XX)</u>	<u>(XX)</u>
Total assets	<u>\$ XX</u>	<u>\$ XX</u>
<b>Liabilities and Capital</b>		
Current maturities of long-term debt	\$ XX	\$ XX
Accounts payable	XX	XX
Accrued expenses	XX	XX
Long-term debt, less current maturities:		
Mortgage loans	XX	XX
Construction loans	<u>XX</u>	<u>XX</u>
Total liabilities	<u>\$ XX</u>	<u>\$ XX</u>
Capital:		
ABC Company	\$ XX	\$ XX
XYZ Company	<u>XX</u>	<u>XX</u>
Total capital	<u>\$ XX</u>	<u>\$ XX</u>
Total liabilities and capital	<u>\$ XX</u>	<u>\$ XX</u>

The accompanying notes are an integral part of these financial statements.

# **Real Estate Joint Venture Company** **Illustrative Income Statement**

**Years Ended December 31, 19X0 and 19X1**

	<u>Year Ended December 31, 19X1</u>	<u>Year Ended December 31, 19X0</u>
Sales	\$ XX	\$ XX
Interest income	<u>XX</u>	<u>XX</u>
Total revenue	<u>\$ XX</u>	<u>\$ XX</u>
Cost of sales	\$ XX	\$ XX
Operating expenses	XX	XX
Sales commissions	XX	XX
Interest expense	XX	XX
Depreciation and amortization	<u>\$ XX</u>	<u>\$ XX</u>
Total expenses	<u>\$ XX</u>	<u>\$ XX</u>
Net income (loss)	<u><u>\$ XX</u></u>	<u><u>\$ XX</u></u>

The accompanying notes are an integral part of these financial statements.



# Real Estate Joint Venture Company

## Illustrative Statement of Cash Flows

**Years Ended December 31, 19X0 and 19X1**  
**Increase (Decrease) in Cash and Cash Equivalents**

	Year Ended December 31, 19X1	Year Ended December 31, 19X0
Cash flows from operating activities:		
Cash received from operating activities	\$ XX	\$ XX
Cash paid for operating activities	(XX)	(XX)
Interest received	XX	XX
Interest paid	(XX)	(XX)
Net cash provided by operating activities	<u>\$ XX</u>	<u>\$ XX</u>
Cash flows from investing activities:		
Capital expenditures	\$(XX)	\$(XX)
Purchase of equipment	(XX)	(XX)
Net cash used in investing activities	<u>\$(XX)</u>	<u>\$(XX)</u>
Cash flows from financing activities:		
Net borrowings	\$ XX	\$ XX
Principal debt payments	(XX)	(XX)
Net cash provided by financing activities	<u>\$ XX</u>	<u>\$ XX</u>
Net increase in cash and cash equivalents	\$ XX	\$ XX
Cash and cash equivalents at beginning of year	<u>XX</u>	<u>XX</u>
Cash and cash equivalents at end of year	<u><u>\$ XX</u></u>	<u><u>\$ XX</u></u>
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ XX	\$ XX
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	XX	XX
Provision for losses on accounts receivable	XX	XX
Increase in liabilities	XX	XX
Total adjustments	<u>\$ XX</u>	<u>\$ XX</u>
Net cash provided by operating activities	<u><u>\$ XX</u></u>	<u><u>\$ XX</u></u>

The accompanying notes are an integral part of these financial statements.

## Illustrative Notes to Financial Statements of Real Estate Joint Venture Company

### (1) The Company

In 19X0, the ABC Company entered into a joint venture agreement with XYZ Company to form the Real Estate Joint Venture Company ("Joint Venture"). The joint venture was formed to sell homes and homesites, to complete development, and to operate and maintain the facilities.

The joint venture agreement provides that earnings are distributed based on the proportionate share of contributed capital. During 19X1 and 19X0, \$X and \$X, respectively, were distributed to each of the joint venturers.

### (2) Significant Accounting Policies

Substantially all sales of real estate are of homesites located in residential areas. Included in joint venture income for the year ended December 31, 19X1 is a gain of \$X on the sale of homesites between the two joint venturers. That gain has been deferred until the ultimate sale of the property to outside parties.

No federal income tax provision is included because each venturer will report in its return its share of the income (loss) of each venture.

Fixed assets are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets.

### (3) Loans Payable

Mortgage and construction loans payable as of December 31, 19X1 consist of the following:

	<u>Interest rate</u>	<u>Total</u>	<u>19X2</u>	<u>19X3</u>	<u>19X4</u>	<u>19X5</u>	<u>19X6 or later</u>
Mortgage loans—							
ABC company	10½–12½%	\$ X	\$ X	\$ X	\$ X	\$ X	\$ X
XYZ company	11%	<u>  X  </u>	<u>  X  </u>	<u>  X  </u>	<u>  X  </u>	<u>  X  </u>	<u>  X  </u>
		\$ X	\$ X	\$ X	\$ X	\$ X	\$ X
Construction loans	11½%	<u>  X  </u>	<u>  X  </u>	<u>  X  </u>	<u>  X  </u>	<u>  X  </u>	<u>  X  </u>
		<u>\$ X</u>	<u>\$ X</u>	<u>\$ X</u>	<u>\$ X</u>	<u>\$ X</u>	<u>\$ X</u>

The borrowings are collateralized by certain of the joint venture's real estate, with a carrying value of approximately \$X at December 31, 19X1.

### (4) Commitments

As of December 31, 19X1, the Joint Venture had remaining commitments of approximately \$X on construction contracts and was contingently liable for approximately \$X of notes discounted with banks.

### (5) Contingencies

There are claims and actions pending against the joint venture. In the opinion of management, the amounts, if any, that may be awarded for those claims and actions would not be material to the company's financial position.



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